Appendix A

Section 25 Report – Section 151 Officer Report on the Robustness of Estimates and the Adequacy of Reserves

1. Introduction

Purpose of the report

1.1. This is an important report which provides the context within which the entire suite of the 2025/26 Budget and Medium Term Financial Plan (MTFP) and Strategy (MTFS), including Capital and Treasury Management Strategy and Housing Revenue Account (HRA) reports on this agenda must be considered when making decisions in relation to setting the Annual Budget for 2025/26, MTFP, MTFS and Council Tax setting.

1.2. The preparation of the report is a Financial Management Standard requirement of the CIPFA Financial Management Code issued in October 2019 and takes account of CIPFA advice issued to Section 151 Officers in February 2025. It is important reassurance to the Council of how the Authority's Financial Management processes and procedures are to be deployed to manage the financial risks that are set out in the main report.

1.3. The report advises Members of the Council of the Chief Finance Officer's (Section 151 Officer) report on the robustness of estimates made for the purposes of the budget calculations and the adequacy of proposed financial reserves as required by statute. It brings together the issues included within the 2025/26 budget report and financial monitoring of the 2024/25 Revenue Budget and Capital Programme to enable a conclusion to be drawn on the robustness of the budget estimates and the adequacy of reserves.

Legal Framework

1.4. To reinforce proper Financial Management in the administration of public sector resources, Section 25 of the Local Government Act 2003 (the Act) imposes a personal statutory duty on the Chief Financial Officer (CFO) in respect of the budget report to Council to:

'report to it on the following matters:

a) the robustness of the estimates made for the purpose of the calculations; and
b) the adequacy of the proposed financial reserves.'

1.5. The Council has a corresponding duty under Section 25 to have regard to the CFO's report (in other words it **must**) when making decisions about the calculations in connection with which the report has been made (decisions about the Budget and setting the Council Tax). The CFO is also the officer appointed under section 151 of the Local Government Act 1972 and at

Somerset Council this role is fulfilled by the Interim Chief Finance Officer (Section 151 Officer).

1.6. Section 26 of the Local Government Act 2003 places an onus on the CFO to ensure the Council has established a minimum level of reserves to be retained to cover any unforeseen demands that could not be reasonably defined within finalising the proposed budget. For the purpose of the Act, 'reserves' include the 'General Fund' Balance. Note: under the Act, the Secretary of State has reserve powers to set a minimum level of reserves. The most likely use of this power is where an Authority is running down its reserves against the advice of their Statutory Section 151 Officer.

1.7. This report has been prepared by the CFO to fulfil their Section 25 duty and gives the required advice relating to the 2025/26 financial year and over the period of the MTFP. This includes a consideration of the Budget proposals as a whole and the key financial risks facing the Council.

1.8. Under the Act, the Secretary of State has reserve powers to set a minimum level of reserves. The most likely use of this power is where an Authority is running down its reserves against the advice of their Statutory Section 151 Officer.

2. Macroeconomic context

2.1. Local Authorities continue to operate in an uncertain and challenging economic environment with interest rates reducing at a slower rate than expected, weaker than predicted economic growth and uncertainty on when.

2.2. Inflation as measured by the Consumer Price Index (CPI) stood at 2.5% in December 2024 and is expected to reach around 2.75% around the middle of 2025 calendar year. Bank of England base rate stands at 4.5% in 2025 and is expected to approach 3.75% around the end of the 2025/26 financial year.

2.3. The Chancellor's budget in October 2024 included a number of measures aimed to support the local government sector in the short term which have subsequently been reflected in the Local Government Finance Settlement (LGFS). Although the LGFS realised an additional £21m of funding for Somerset Council compared to the assumptions before the Settlement which is welcomed, the funding was insufficient to meet the escalating financial pressures facing the Council, in particular relating to the cost of services meeting statutory duties such as Adult Social Care, Children's Social Care, Homelessness and Waste Disposal. The Government pledged to compensate local authorities so that they do not incur the additional cost of its planned increase in Employers' National Insurance Contributions (NIC). However, the compensation funding received in the LGFS has only partially compensated Local Authorities and they could potentially be adversely impacted by increase in the cost of supplies and services contracts. In particular this is likely to apply in the social care sector where providers could seek to pass on the Employers' NIC increases to Local Authorities.

2.4. Some new grants for 2025/26 have been allocated on a one-off basis for 2025/26 to provide some temporary respite to Local Authorities in financial distress which provides time for a more comprehensive review of spending priorities via the Spending Review and the Fair Funding Review. Based upon information from Government to date, there is real concern that the redistribution of funding will favour metropolitan areas at the expense of rural authorities like Somerset. This creates significant risk and uncertainty beyond 2025/26 when preparing the MTFP.

3. Local Context

3.1. In November 2023, Somerset Council's Members received a Financial Strategy update report which highlighted the stark and challenging financial position of the Council. The update included details of how costs of delivering services were increasing significantly faster than the income the Council was receiving, and the steps taken since July to address the forecast £42m budget gap for 2024/25. This included targeting specific areas, a review of MTFP assumptions, and n ask for all Executive and Service Directors to review their services and identify budget options for Members to consider - all with a view to work and address the budget gap.

3.2. However, further financial analysis identified a substantial increase in the forecast Budget gap, which had increased to £100m for 2024/25, with gaps of £42m for 2025/26 and £41m for 2026/27. At this point (November 2023) the figures included the forecast overspend for 2023/24 of £27.3m (5.5%), the majority related to an increase in demand and costs in Adults and Children's services.

3.3. The Council faced a very stark and challenging financial position. Immediate action was needed to mitigate the risk of having to issue a Section 114 Notice, and Members declared a Financial Emergency. Financial Focus Groups were set up, and further financial controls were introduced to limit and control spending, details of which can be found below.

Responding to the Financial Emergency

3.4. Somerset Council acted decisively and responsibly to introduce measures to stabilise and control the 2023/24 in year budget gap of £27.3m reported at Month 5 and outturn position for 2023/24 and to set a balanced budget for 2024/25. This required swift and difficult decisions regarding a number of options including:

- the sale of assets and buildings and offices;
- increasing Council Tax (4.99%);
- increasing fees and charges;
- reducing staffing levels; and
- reducing Council services to statutory levels.

While ensuring staff, our communities and partners remained supported and informed.

3.5. Financial Focus Groups were set up, and further financial controls were introduced to limit and control spending, the details of which were:

- Directorate level financial controls that were agreed by the Executive and cover:
- Focussed delivery of 2023/24 savings.
- Acceleration of the office rationalisation programme.
- Staffing establishment controls put in place.
- Underspending opportunities learned from 2022/23 to be applied to 2023/24.
- Non-critical spend put on hold.
- Exploring alternative funding mechanisms.
- Review of ear-marked reserves.

3.6. Further enforcement of policies, training and Board controls included:

- **No PO, No Pay** – On the back of the introduction of the new finance system, tackling and working with services on ensuring they follow good financial management practice to issue Purchase Orders and maintaining timely good receipts when committing funds.

- **Financial training** – There has been a significant investment in the training of staff on the new finance system to enable them to use and understand the new processes which assists with more accurate budget monitoring processes.

- **Control Boards** - the former Section 151 Officer felt Directorate level financial controls were not having the desired impact and need strengthening. A number of daily and weekly control boards have been put in place: -
  a) **Establishment & Recruitment Control Board** - to assess all workforce requests and changes.

b) **Commercial & Procurement Control Board** – to review and challenge all new commissions, annual uplifts in contract and contract renewals.
c) **Spend Control Board** – ensuring that all purchases over £100 are reviewed and challenged to avoid any non-essential spend.
d) **Adult Social Care Panel** – to review and challenge placements.
e) **Children's Care Panels** – various panels to review and challenge placements.

3.6.1. **Staff messaging** – The intranet, staff and management briefings have all been utilised to publicise the financial position and the need to reduce down the in-year overspend.

3.7. The Council reported a final 2023/24 Outturn position with an underspend of £1.8m, after contingency use, to its Executive committee of 2 September 2024. This outturn position demonstrates the effectiveness of the measures put in place from the forecast overspend at Month 5.

2024/25 Budget Setting

3.8. To set a Balanced Budget for 2024/25, the Council looked for savings across all service areas and reviewed all contract spend and inflation. The Council approached it from the perspective of everything a Commissioner could do if a Section 114 Notice was issued, whilst also delivering the Council's priorities. All of the actions from 2023/24 continued to be applied into 2024/25 budget setting allowing for a balanced budget, utilising £81.4m of one-off funding including £36.800m Earmarked Reserves, £36.884m Exceptional Financial Support (EFS) Capitalisation Direction and £7.713m Collection Fund Surplus.

In-Year 2024/25 Budget Monitoring and Financial Management Process

3.9. The Quarter 3 2024/25 position is drafted and being reported to Executive on 26 February 2025. The Council is forecasting a revenue underspend of £20.065m for the Council for 2024/25 which includes the £6.000m Corporate Contingency. This is being used to reduce the drawdown of the Earmarked Reserves to £16.735m of the £36.800m that was included to balance the 2024/25 Budget.

3.10. The most significant forecast overspends as at Quarter 3 2024/25 are as follows:

- Children & Families of £8.166m reduced to an overspend of £5.861m by forecast underspends in the rest of Children, Families & Education Services.
- Climate & Place are forecasting an overspend of £3.436m

- Governance, Democratic & Legal Services are forecasting a £0.713m overspend reduced to an underspend of £1.375m by forecast underspends in the rest of Strategy, Workforce & Localities
- Strategic Asset Management are forecasting a £2.412m overspend reduced to an overspend of £1.226m by forecast underspends in the rest of Resources & Corporate Services

3.11. Children, Families and Education Services overspend is mainly due to external placements, because of rising numbers of children coming into care with many of these children moving into high cost residential and unregistered placements instead of foster care placements.

3.12. The Climate and Place overspend is mainly due to increase in Waste Services contract costs, as well as additional pressures in Safety defects, capitalisation of salary costs against eligible capital projects and income budgets not yet achieved within Land Charges.

3.13. There are £20.022m of ongoing pressures within the Quarter 3 Budget monitoring report that have been addressed within the 2025/26 budget by the allocation of Growth, required as the ongoing pressure has not been resolved in 2024/25 for 2025/26.

3.14. The Council continues to have Spend Control Boards in place (as per paragraph 3.6), with the monitoring and outcomes of the boards included in the quarterly monitoring reports to Executive.

3.15. To pull back the forecast overspends to a balanced position for outturn and protect the Council's reserves position, the following elements of the budget are being reviewed:

- A focus on Commissioning of suitable Children's Placements including step down.
- Capital programme - reviews and reprofiling have been undertaken and will continue. The reduction in the capital financing has been reflected in the Revenue forecast outturn.
- Alternative funding sources review.
- Recharges across to Housing Revenue Account (HRA), Dedicated Schools Grant (DSG), Public Health Grant (PHG) – recharges are being reviewed throughout the year to ensure that eligible expenditure is being recharged to these.
- Invoiced income versus alternative payment methods.
- Fees and charges.
- Annual underspends (review from 2023/24 outturn) – A review has been undertaken and savings have been identified and reflected in the forecast outturn.
- Increase the occupancy rates in the Homes to Horizons Children's Homes project.
- Work with providers to develop high quality, lower cost residential care

for children.

- Continue to focus on in year mitigations at the Adults and Children's Financial Recovery Boards.
- Continue to review recruitment and spending through the Spend Control Panels.

3.16. Service Directorates that are forecasting overspends are required to identify mitigating actions to address the full forecast overspends, both one-off and ongoing. This is to ensure a balanced outturn position in-year and prevent any pressures rolling forward into 2025/26.

3.17. Financial Control Measures are:

- New approach for assurance, monitoring and tracking of existing MTFP savings
- Establishment of Financial Recovery Boards for Children's and Adults Services
- Control Boards for:

  a) **Establishment & Recruitment** – review and approval of any recruitment and payroll requests that result in increased workforce spend
  b) **Commercial and Procurement** – review of the contracts pipeline, new and existing contracts, annual price uplifts, contract extensions and grants
  c) **Spend Control** – review of spend over £100 (excludes Social Care placements)
  d) **Adult Social Care Panel** – to review and challenge placements.
  e) **Children's Care Panels** – various panels to review and challenge placements.
  f)

3.18. Given that the Council's financial position remains critical, it cannot afford to relax its focus upon financial control and budget responsibility and accountability. The effectiveness of measures taken to date should be reviewed in order to refine the approach to optimise the impact of corporate governance measures. This may involve new or revised forms of corporate oversight and control where current arrangements have not had the desired financial effect. Some exercises introduced at the start of the financial emergency, such as reviewing earmarked reserves, reprioritising and reducing the capital programme and rationalisation of administrative office space should be embedded into business-as-usual financial management practices.

4. Implications of Failure to Achieve a Balanced Annual Budget and MTFP

4.1. The alternative to an application for Exceptional Financial Support (EFS) in the Council's financial circumstances, is for the Section 151 Officer to issue a Section 114 Notice. This would have extremely serious implications and would result in a range of onerous actions to suspend all but the most essential expenditure. Council would need to meet within 21 days of the Section 114 Notice to agree new plans to reduce expenditure by making significant reductions to or cease services to the public in order to meet the remaining savings of £43.000m required to balance the Budget for 2025/26. The inability to set the Council Tax and bill households would also have a significant adverse impact upon the Council's cashflow position. Further information on the implications of a Section 114 Notice is contained within Section 14 of this report.

4.2. CIPFA's advice to Section 151 Officers is that they should explore all feasible options before issuing a Section 114 Notice. This should be the last resort given the potentially catastrophic implications that would follow in terms of the impact upon the provision of Council services. The Council has now received the 'in principle' approval letter for a Capitalisation Direction of £43.000m via EFS from MHCLG, which means that the Council is able to set a balanced robust 2025/26 Budget and can avoid a Section 114 Notice in relation to the 2025/26 Budget.

4.3. The forecast net expenditure in 2025/26 and 2026/27 is between 6.9% and 9.5% higher than the Council's available income after an additional 2.5% Council Tax increase. It is therefore essential that the Council develops further Transformation programmes and plans to reduce its cost base further by between 10-15% during 2025/26 in order to have a realistic prospect of Balancing the Budget in a sustainable way (without one offs) for 2026/27 and achieving a financially sustainable position in the medium term to secure the Council's financial future. It is likely that further EFS will be required in 2026/27 to support the Council to achieve this transition. The Council is currently unable to meet its Best Value Duty to demonstrate Financial Sustainability over the medium term.

4.4. Given that the Council is already in receipt of an 'in principle' agreement of £76.884m EFS in the form of a Capitalisation Direction for 2024/25 and has been unable to balance the 2025/26 Budget without further reliance upon EFS, this may result in additional recommendations being made and/or intervention measures being taken by MHCLG to address the Council's failure to meet its Best Value Duty in relation to Financial Sustainability.

4.5. Nationally, several local authorities are subject to formal Best Value intervention by MHCLG in relation to failure to achieve their Best Value Duty. Intervention ranges from the requirement for the local authority to work with an MHCLG appointed independent assurance board, through to appointment of independent Commissioners who oversee the running of the Council through its financial recovery phase. Commissioners would come into the Council and take over the decision making of the Council.

4.6. The Council's External Auditor Grant Thornton LLP issued its Interim Auditor's Annual Report for 2023/24 in January 2025. This report included **2 Statutory Recommendations** under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014 and required discussion at Full Council and a public response. The report was considered by the Audit Committee on 30 January 2025 and Full Council on 12 February 2025. Proposed management actions to address the 2 Statutory Recommendations are detailed in the associated report.

4.7. The 2 Statutory Recommendations issued by the External Auditors in their Interim Auditor's Annual Report for year ended 31 March 2024 are as follows:

- **Statutory Recommendation 1:**

  The Council should develop detailed savings plans at pace to deliver the savings targets set out in the MTFS in order to reduce reliance on one-off resources and rebase the Council's budgets to a financially sustainable level.

- **Statutory Recommendation 2:**

  The Council should develop the overarching transformation business case and detailed business cases for individual workstreams that will deliver service transformation and contribute to delivering the Council's ambitious savings targets. The funding required to deliver transformation, and the new target operating model, should be identified and a funding plan developed. This should be undertaken at pace in order to deliver the savings required to balance the 2025/26 budget.

4.8. This position may increase the risk mentioned above of additional recommendations being made and/or intervention measures being taken by MHCLG to address the Council's failure to meet its Best Value Duty in relation to financial sustainability.

4.9. It is imperative that the Council works continuously toward a Financially Sustainable position, balancing its Budget in a sustainable way as soon as possible. A sustainable Budget is a budget where ongoing funding and income balance with ongoing expenditure without any one-off contributions from Reserves or EFS Capitalisation Direction. This will require ongoing work during 2025/26 to sustainably close the Budget gap for 2026/27 by significant additional ongoing robust:

- Savings identified agreed and delivered throughout 2025/26 (in-year) for 2026/27 onwards
- Transformation and actions to reduce Budget Pressures requirement in 2026/27 onwards

5. Chief Finance Officer Overall Opinion – 2025/26 Budget Process

5.1. The Council's financial position is critical, given its inability in 2024/25 and 2025/26 to set a balanced Revenue Budget without reliance upon Exceptional Financial Support (EFS). This has been in the form of additional Council Tax increase of 2.5% above the referendum limit and a Capitalisation Direction of £43.000m for 2025/26 to set a balanced Budget 2025/26.

5.2. In the Final Local Government Finance Settlement announced on 3 February 2025, MHCLG approved that the Council may raise an additional 2.5% in Council Tax over the planned 4.99% (total of 7.49%) in 2025/26. This provides an increase in the available income stream to the Council on an ongoing basis. In contrast, a Capitalisation Direction provides a one-off source of funding in each year that it is approved.

5.3. On 20 February 2025, the Council received written 'in principle' agreement by the Minister for Local Government advising that the Deputy Prime Minister is 'minded to approve' a Capitalisation Direction of a total not exceeding £63.000m in respect of 2025/26. This includes amounts as follows and further detail is set out in Section 6:

- The full amount of the Budget gap of £43.000m in relation to 2025/26
- Reprofiling of £20.000m of £40.000m of the 2024/25 Capitalisation Direction approved in principle on 27 February 2024 (to fund transformation including redundancy cost) from 2024/25 to 2025/26.

5.4. Without the EFS approval for 2025/26 the Council would be required to use £43.000m of revenue Reserves to balance the Budget. The General Fund Balance would be reduced to £60.000m at 31 March 2026 whilst other unrestricted usable Earmarked Revenue Reserves would fall to £2.905m. This would leave the Council exposed to a range of financial risks and over the period of the MTFP and therefore reserves are deemed to be insufficient to cover the 2025/26 Budget gap. The Council is therefore dependent upon EFS in the form of a Capitalisation Direction to balance the 2025/26 Budget.

5.5. After taking account of the approval of EFS as set out in **paragraph 5.3**, the forecast of usable unrestricted Earmarked Revenue Reserves and the General Fund balance over the period 2024/25 to 2029/30 is summarised in **Table 1** together with the forecast Budget deficit over the medium term. After taking account of all savings, pressures and available income set out in this MTFP, this shows that the Council is not financially viable without further measures at significant scale to reduce expenditure and/or increase its income streams. This will require further significant transformation programmes to be developed as a priority in 2025/26.

Table 1: Unrestricted Earmarked Reserves & General Fund Balance

	2024/25 Forecast £m	2025/26 Estimate £m	2026/27 Estimate £m	2027/28 Estimate £m	2028/29 Estimate £m	2029/30 Estimate £m
Opening Balance of Unrestricted Earmarked Reserves & GF	**117.578**	**108.123**	**105.905**	**4.221**	**(127.224)**	**(280.750)**
Planned contributions/(draws)	(9.455)	(2.218)	(0.300)	4.701	5.000	5.000
Closing Balance of Unrestricted Earmarked Reserves & GF	**108.123**	**105.905**	**105.605**	**8.923**	**(122.224)**	**(275.750)**
Budget Deficit (Cumulative)	(36.884)	(43.000)	(101.384)	(136.147)	(158.525)	(190.041)
Exceptional Financial Support (EFS) – Capitalisation Direction (CD)	36.884	43.000	-	-	-	-
Closing Balance of Unrestricted Earmarked Reserves & GF after Budget Deficit	**108.123**	**105.905**	**4.221**	**(127.224)**	**(280.750)**	**(465.791)**

5.6. The full assessment of the adequacy of Reserves is set out in Sections 6 and 11.

5.7. It is important to note that the Capitalisation Direction provides only a one-off funding solution to the budget gap for 2025/26 and defers the budget pressure into 2026/27. MHCLG approve the Capitalisation Direction to provide more time for the Council restore its financial sustainability. The Council must therefore develop and implement further significant transformation and savings programmes at scale to be capable of balancing the 2026/27 Budget which has a forecast gap of £101.384m and to close the forecast budget gap of £190.041m by 2029/30 to achieve Financial Sustainability.

5.8. The advice of the Interim Chief Financial Officer (Section 151 Officer) is that, **based upon the approval of the Exceptional Funding Support Capitalisation Direction application** detailed above, the proposed 2025/26 Budget is robust and the level of reserves and balances in the draft budget is **just adequate**. The Council needs to accept the EFS support and its associated conditions and comply with the conditions in order to secure final approval of the Capitalisation Direction at the appropriate time. **On this basis the Council will be able to set a lawful, robust and balanced Budget at its budget meeting on 5 March 2025.**

Dedicated Schools Grant – High Needs Deficit

5.9. Somerset, like many Local Authorities is facing increased demand for services for pupils with Special Educational Needs and Disabilities (SEND). By December 2024, Somerset had issued 5,672 Education Health and Care Plans (EHCPs) for pupils with SEND, which is an increase of more than 220% since December 2020 (2,535 EHCPs). As well as the significant increase in numbers, there has been an increase in the complexity of pupils' needs.

5.10. Escalating demand and costs that exceed available funding is a national issue being experienced by many local authorities and in 2020, the Government introduced a statutory override that requires local authority DSG deficits to be ringfenced from the General Fund reserves. It also requires authorities in deficit to produce a Deficit Management Plan (DMP) to recover the position. The statutory override is due to expire on 31 March 2026.

5.11. The allocated DSG for children with High Needs is insufficient to meet the cost of high needs provision and has resulted in overspending in the High Needs Block for Somerset since 2018/19. The **deficit on the DSG reserve has been increasing each year and is forecast to reach £99.125m by 31 March 2026** as summarised in **Table 2** below:

Table 2: DSG Deficit

Dedicated School Grant Deficit	31/03/2024 Actual £m	31/03/2025 Forecast £m	31/03/2026 Forecast £m
Balance Brought Forward 1 April	(20.730)	(33.911)	(65.211)
In-Year Deficit	(13.181)	(31.300)	(33.914)
Deficit Balance carried forward 31 March	**(33.911)**	**(65.211)**	**(99.125)**

5.12. The Authority shared its DMP with the Department for Education (DfE) in January 2024, however the costs in the High Needs Block continue to escalate. Therefore, the Authority is in the process of refreshing its DMP with support from external consultants. The refreshed plan will be shared with Schools Forum and Members when complete.

The Local Government Finance Settlement for 2025/26 states that the statutory override on accounting for Dedicated Schools Grants (DSG) deficits is due to end on 31 March 2026. The settlement consultation says that the Government intends to set out plans for reforming the SEND system in further detail during 2025/26 and that this will inform any decision to remove the statutory override.

5.13. Whilst the Authority is reviewing and revising its Deficit Management Plan in order to mitigate future costs, this is unlikely to have a material impact upon the scale of the financial challenge going forward nor will it resolve the accumulated deficit. The removal of the statutory override without a Government led solution to addressing the cumulative deficit and aligning funding and the cost of demand, presents an additional material risk to the Council's financial viability in addition to the forecast General Fund Reserves position set out in **Table 1** above. **Table 3** below summarises the underlying reserves position including the DSG deficit.

Table 3: Unrestricted Earmarked Reserves & General Fund Balance – Impact of Budget Deficit and DSG Deficit

	2024/25 £m	2025/26 £m	2026/27 £m	2027/28 £m	2028/29 £m	2029/30 £m
Opening Balance of Unrestricted Earmarked Reserves & General Fund	**117.578**	**108.123**	**105.905**	**(94.904)**	**(325.474)**	**(578.125)**
Planned contributions/(draws)	(9.455)	(2.218)	(0.300)	4.701	5.000	5.000
Closing Balance of Unrestricted Earmarked Reserves & General Fund	**108.123**	**105.905**	**105.605**	**(90.202)**	**(320.474)**	**(573.125)**
Budget Deficit (cumulative)	(36.884)	(43.000)	(101.384)	(136.147)	(158.525)	(190.041)
Exceptional Financial Support (EFS) – Capitalisation Direction (CD)	36.884	43.000	-	-	-	-
Closing Balance of Unrestricted Earmarked Reserves & General Fund after Budget Deficit	**108.123**	**105.905**	**4.221**	**(226.349)**	**(479.000)**	**(763.166)**
DSG Deficit (para 5.15)	(65.211)	(99.125)	(99.125)	(99.125)	(99.125)	(99.125)
Underlying Reserves Position (without the Statutory Override)	**108.123**	**105.905**	**(94.904)**	**(325.474)**	**(578.125)**	**(862.291)**

5.14. The statutory override is in place until 31 March 2026, which means that the reserve is ringfenced and the deficit balance cannot be offset by General Fund resources. The deficit continues to exist within the Council’s balance sheet and is offset in cash terms by other cash reserves and provisions. At this time, projections of the DSG financial position have not been made beyond 2025/26. This work is progressing with the support of external consultants who are also supporting the development of the Authority’s DSG Deficit Management Plan. **Table 3** details that from 2026/27 onwards, the statutory override is removed resulting in a requirement for the General Fund reserves to be used to offset the negative deficit reserve of £99.125m. **This would result in an overall negative balance on the Council’s reserves and combined with the impact of the projected General Fund deficit of £101.384 would result in the requirement to issue a Section 114 Notice.** It should be noted that even in the event of new savings plans being developed and/ or EFS being secured for 2025/26, the scale of the DSG deficit would independently exhaust the General Fund reserves position.

5.15. The budget estimates are assessed as robust based upon the information set out in the remainder of this report and in particular, the fundamental requirement to rely upon Exceptional Financial support (EFS) from Government in the form of a Capitalisation Direction to close the Budget gap of £43.000m for 2025/26 is critical.

6. Reliance upon MHCLG 'minded to' approval of Exceptional Financial Support

2025/26 Application for Exceptional Financial Support

6.1. The Council applied for Exceptional Financial Support in January 2025 in the form of an above referendum cap increase in Council Tax and a Capitalisation Direction. MHCLG confirmed in the Final Local Government Finance Settlement on 3 February 2025 that the Council is permitted to increase Council Tax by an additional 2.5%.

6.2. In addition, further measures have been taken during the development of the budget to reduce the budget gap further to £43.000m. The Interim Chief Finance Officer (Section 151 Officer) has confirmed to MHCLG that this is the value of the Capitalisation Direction required to set a balanced Budget for 2025/26.

6.3. The 2024/25 Capitalisation Direction totalling £76.884m incorporated £36.884m to balance the 2024/25 budget and £40.000m to fund the revenue costs of transformation including redundancy costs. In addition to the 2025/26 Capitalisation Direction of £43.000m, a request was made to reprofile £20.000m of the £40.000m allocation for transformation and redundancy costs from 2024/25 to 2025/26.

6.4. On 20 February 2025, the Council received written 'in principle' agreement by the Minister for Local Government advising that the Deputy Prime Minister is 'minded to' approve a Capitalisation Direction of a total not exceeding £63.000m in respect of 2025/26. A copy of the letter is attached at **Annex A(i)**. The approval includes:

- The full amount of the Budget gap of £43.000m in relation to 2025/26
- Reprofiling of £20.000m of £40.000m of the 2024/25 Capitalisation Direction approved in principle on 27 February 2024 (to fund transformation including redundancy cost) from 2024/25 to 2025/26.

6.5. The letter advised that the final Capitalisation Direction will be subject to the following conditions:

- The authority may only capitalise expenditure when it is incurred.
- Where expenditure is capitalised, the authority shall charge annual MRP using the asset life method with a proxy 'asset life' of no more than 20 years. [assuming it is financed by borrowing].
- The approval will be contingent on the Council reporting to MHCLG the final amounts identified for which a Capitalisation Direction is required each year in agreement with the External Auditor. [in practice this will be after the accounts are closed in May 2026]
- If the Capitalisation Direction is financed by capital receipts, the expectation is that the Council should avoid the disposal of

community heritage assets where possible to protect the public ownership of local significant sites to ensure residents can continue to benefit from them.

6.6. The Minister advised of the imminent publication of the EFS External Assurance Review for the Council that was carried out by CIPFA in relation to the in principle EFS agreed for 2024/25 and requested that the Council progress with addressing the recommendations in due course. In addition, the Minister reiterated the Government's commitment made in the Local Government Finance Settlement, that it will work to support local services and put the local government system back on a sustainable footing.

Updated Position in Relation to 2024/25 EFS Application

6.7. In 2024/25 the Council applied for EFS in the form of a Capitalisation Direction of £76.884m after MHCLG (then DLUHC – Department for Levelling Up Housing and Communities) rejected its application to raise council tax in excess of the 3% referendum cap and therefore Council Tax was raised by 4.99% consisting of 2.99% core council tax and 2% Adult Social Care Precept.

6.8. On 27 February 2024, the Minister for Local Government set out that the Secretary of State is minded to approve a Capitalisation Direction of a total not exceeding £76.884m and that before the Capitalisation Direction can be approved, the Council is required to undertake certain actions. A copy of the letter is attached at **Annex A(ii)**. The Council was required to:

6.8.1 ***Undergo an external assurance review to assess the Council's financial position and financial management practices.***

The external assurance review was undertaken during the summer 2024. Verbal feedback was provided shortly after the review and whilst the full report has not yet been published, 45 draft recommendations were shared with the Chief Executive and Interim Chief Finance Officer (Section 151 Officer) in December 2024 in order that they can be incorporated into the Governance and Improvement Plan.

6.8.2 ***Produce an improvement and transformation plan within 6 months that is focused on delivering the Council's key objectives and securing the medium-term financial position of the Council***

Whilst a transformation plan has been developed, this is currently not at the scale, nor has it delivered at the pace required to balance the budget in 2025/26 and over the medium term. Further plans are now required to be developed and implemented to address the forecast financial deficit of

£190.041m that is projected to 2029/30.

6.8.3 ***To incorporate within the improvement and transformation plan any recommendations identified as part of the EFS external assurance review.***

45 draft recommendations were received in December 2024 and these are being incorporated into the governance and improvement plan currently to ensure appropriate actions are being taken to enable the Council to meet the conditions of the review.

6.8.4 ***Expenditure may only be capitalised when it is incurred. The final amount is contingent on the Council reporting to the Department the final amount for which it requires capitalisation for the year with the agreement of the Council's external auditors.***

Therefore, the value of the Capitalisation Direction cannot be finalised until the relevant financial year's accounts have been produced to confirm the final expenditure that is eligible for the Capitalisation Direction. This requires agreement by External Audit which may only be provided once the audit of the financial statements is completed.

6.8.5 ***Where the Authority's capital financing requirement (CFR) is increased as a result of the capitalisation of expenditure under the direction (i.e. up to the value of the CD) (i.e. the council finances the expenditure by borrowing)***

6.8.6 ***MRP shall be charged on the asset life method with a proxy 'asset life' of no more than 20 years.***

6.8.7 ***Any further [external] borrowing from the date of the capitalisation letter up to and including, but not exceeding the increase in the CFR, must be obtained from PWLB and must be subject to 1% point premium on the interest rate that the loan would otherwise be subject to (excludes borrowing for HRA).***[1]

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[1] The new Government announced the removal of the 1% premium in the Local Government Policy statement ahead of the Provisional Local Government Finance Settlement which will apply from 2025/26.

6.8.8 ***The Secretary of State may also attach additional bespoke conditions to any directions issued in respect of the financial year depending on the council's individual circumstances.***

The Council will not finance the expenditure that is capitalised under the Capitalisation Direction until expenditure is finalised during accounts closure in May 2025. It will therefore not take any borrowing in respect of the 2024/25 Capitalisation Direction before the start of 2025/26 and only then if it decides to finance by Borrowing rather than Capital Receipts.

6.9 It is clear from the stated conditions in the Minister's letter that the Council is in a position to secure the final Capitalisation Direction once all conditions are met which will not be before May 2025.

7. 2025/26 Budget Assumptions on EFS and impact on Reserves

7.1. The proposed 2025/26 Budget has been prepared with fundamental reliance upon the MHCLG EFS approval <u>in principle</u>, as follows:

7.1.1. **Approval of a 2.5% increase in Council Tax above the referendum limit of 3%, in addition to 2% Adult Social Care Precept i.e. 7.49% in total. The 2.5% increase was confirmed by MHCLG in the Final Local Government Finance Settlement announcement on 3 February 2025**

7.1.2. **Approval of £43.000m Capitalisation Direction for which the MHCLG 'minded to' decision letter was received on 20 February 2025 and will be forthcoming subject to the Council meeting the conditions set out in that letter.**

7.1.3. **That the MHCLG EFS 'in principle' approval of up to £76.884m Capitalisation Direction for 2024/25 dated 27 February 2024 will be forthcoming subject to the Council meeting the conditions set out in that letter.**

7.1.4. **Approval of the reprofiling from 2024/25 to 2025/26 of £20.000m of the £40.000m Capitalisation Direction approved in principle for 2024/25 in relation to transformation and redundancy costs which was confirmed in the letter received on 20 February 2025.**

7.2. The Council will be required to accept the terms of any amount of EFS agreed 'in principle' and subject to specified conditions for 2025/26 to then progress to consider and set a balanced Budget at its meeting on 5 March 2025. **This is required to avoid a Section 114 Notice being issued under s114(3) of the Local Government Act 1988 in relation to the 2025/26 budget. The implications of issuing a Section 114 Notice are extremely serious and are set out in Section 14 of this report**.

7.3. In 2024/25 the Council was reliant upon the one-off use of £36.800m use of its Earmarked Revenue Reserves together with a one-off Capitalisation Direction totalling £76.884m. Of the £76.884m Capitalisation Direction, £36.884m was applied to balance the Budget and £40.000m was allocated to meet the costs of transformation and redundancy. At Quarter 3, there is a forecast underspend of £20.065m as a result of focused Financial Management control measures to reduce reliance upon these one-off measures and to move the Council towards a more financially sustainable position. This will result in a reduction in the draw on reserves to £16.735m to balance outturn.

8. Robustness of the Budget

8.1. Budget estimates are assessed as robust based on the assessment of risks, assumptions and issues set out in the suite of budget reports that comprise the Budget and Policy Framework that are presented for the Council to consider and approve in setting the Council Tax at its meeting on 5 March 2025. A summary of the risks is set out in **Section 13** of this report.

8.2. It is my opinion as the Interim Chief Finance Officer (Section 151 Officer) that the total net budget requirement of £665.342m is based upon robust estimates. This Budget has been funded by a one-off Capitalisation Direction of £43.000m and one-off contribution from the Collection Fund surplus, together with ongoing income streams to arrive at the Council Tax requirement of £394.864m for 2025/26. This is to be presented for approval by Council for consideration and approval The budget estimates are robust on the basis that:

8.2.1. **An additional 2.5% increase in Council Tax (above the referendum threshold) was confirmed by MHCLG in the Final Local Government Finance Settlement announcement on 3 February 2025, in addition to the 3% General Council Tax and 2% Adult Social Care Precept increase, i.e. 7.49% in total.**

8.2.2. **MHCLG agreement <u>in principle</u> to the Council's request for Exceptional Financial Support in the form of:**

- **a) Approval of £43.000m Capitalisation Direction for which the MHCLG 'minded to' decision letter was received on 20 February 2025.**
- **b) That the MHCLG EFS 'in principle' approval of up to £76.884m Capitalisation Direction for 2024/25 dated 27 February 2024 will be forthcoming subject to the Council meeting the conditions set out in that letter.**
- **c) Approval of the reprofiling from 2024/25 to 2025/26 of £20.000m of the £40.000m Capitalisation Direction**

approved in principle for 2024/25 in relation to transformation and redundancy costs which was received on 20 February 2025.

8.2.3. **All Members and Officers will work collaboratively together with an unrelenting focus on financial management and control with priority as follows:**

a) controlling costs within cash limited budgets without exception.
b) Delivery of £57.917m total planned savings for 2025/26 on an ongoing basis
c) Identify and develop further transformational savings at pace to close the budget gap of £101.384m in 2026/27 to avoid or mitigate the further requirement for EFS support from MHCLG.
d) Further develop plans to close the budget gap of a further £88.657m over the MTFP period to 2029/30.
e) Noting that the failure to deliver planned savings in any financial year will add to the budget gap to be delivered in the following financial year.
f) Executive Directors reviewing their proposed budgets for 2025/26 and providing signed assurance statements confirming that they will work collaboratively together with the support of the Finance Service to deliver their services within their allocated cash budget (see **Annex B**).
g) Executive Directors will consult promptly with the Chief Finance Officer (Section 151 Officer) in relation to risks and issues arising during the financial year to ensure that remedial and mitigating management actions are implemented to contain expenditure within the overall Budget.
h) Executive Directors will ensure full staff compliance across their respective service areas and identify and arrange with the Chief Finance Officer (Section 151 Officer) for their staff to be trained to fulfil this requirement, as necessary.

8.2.4. These control measures will serve to deliver expenditure within the Council's annual income stream and preserve and rebuild the Council's revenue reserves to strengthen the Council's financial resilience over the medium term. These measures will also serve to meet the external auditor's statutory recommendations issued in January 2025.

8.2.5. **Asset Portfolio** - The Council takes all necessary measures to realise the delivery of £43.000m of planned asset sales in 2025/26 to find the Capitalisation Direction and any other Capital Receipts to fund the Flexible Use of Capital Receipts Strategy which are critical to fund transformation investment over the period of the MTFP.

8.2.6. **Finance and Governance Improvement Plan** – The Council must continue to proactively address the areas for improvement set out in the Finance and Governance Improvement Plan and as a priority must incorporate and address the recommendations set out in the External Auditor's Annual Audit Report 2023/24 and issued in January 2025 (and 2022/23) and MHCLG's EFS Assurance Report recommendations received in draft in December 2024 as well as recommended actions set out in the 2023/24 Annual Governance Statement.

8.2.7. **Identification and delivery of wider transformation programme to develop service operating models within the Council's financial** means – Further significant transformation and cashable savings delivery plans to be developed and delivered by the Executive Leadership Team and the Corporate Leadership Team at sufficient scale and pace to return the Council to financial stability and strengthen its financial resilience over the period to 2029/30. Service operating models need to be developed and implemented that can be delivered within the Council's annual income streams and without reliance on the drawdown of one off Reserves or further EFS support. This will also address the 2 Statutory Recommendations issued by the External Auditor in January 2025.

8.2.8. **That sufficient capacity and capability is engaged and funded to deliver the transformation programme at the required pace** – Adequate transformation resource is required across the organisation to deliver transformation alongside business as usual operations and resources to ensure that the medium-term Budget gap can be closed in a sustainable way. This includes capacity in front line services and enabling/ support services and will need to be addressed within the development of the transformation programme delivery and resource plans.

8.2.9. **That sufficient senior and specialist capacity of the Finance Team is secured to be able to service the organisational requirements associated with delivering transformation alongside its normal duties in upholding the Section 151 Officer statutory responsibilities to the required standard** – S114 (7) of the Local Government Finance Act 1988 requires that the Council provide the s151 Officer with sufficient resources as the s151 Officer considers necessary to fulfil their statutory duties under the Act. The

Finance Team will therefore be dependent upon a level of temporary professional senior resource over the course of 2025/26, and this will be addressed within the further development of the transformation programme delivery and resource plans.

8.3. Council should note that during 2025/26, Government intends to fundamentally review the future of Local Government funding through the Spending Review and the planned Fair Funding Review. It is not possible to anticipate the outcome of these reviews and therefore no assurance can be given regarding the Council's financial position for 2026/27 and beyond until the. Until future funding is confirmed I cannot confirm that any Medium-Term Financial Strategy is robust or achievable.

9. Robustness of Revenue Estimates

9.1. Budget estimates are based upon a combination of known data and assumptions of which some are within the organisation's control, and some are outside of its control. Therefore, it is not possible to predict the future with certainty and so the statement on robustness of estimates cannot give a 100% guarantee that expenditure and income will be incurred as expected in developing those budget estimates. The financial planning environment is particularly uncertain as the impact of the Covid19 pandemic upon demand upon business and communities continues to evolve combined with continued volatility in the global economy.

9.2. The Section 151 Officer has relied upon the following measures to meet the requirements for assessing the robustness of estimates:

9.2.1. Budgets have been aligned to the identified spending needs of the Council through the assessment of demand, pay inflation, non-pay inflation, contractual inflation and assessment of income sources as set out in the detailed Budget (**Appendix D**).

9.2.2. A review of savings proposals and their achievability by the Executive, ELT, Corporate Leadership Team (CLT), Departmental Management Teams (DMT) and Finance to assess the robustness and deliverability of proposals. These have been monthly reported to the Executive as part of Budget monitoring.

9.2.3. Directors who have identified pressures in their budgets which they are unable to mitigate have put forward growth requests for 2025/26. These have been scrutinised and challenged against the current year service forecast outturn position.

9.2.4. Compliance by all Directors in the use of 'Budget Savings' templates issued to support the development of budget saving proposals, capturing the costs, benefits, risks, impact of proposals together with a high-level profile of delivery timescales.

9.2.5. A review of income from fees and charges for discretionary services has been undertaken and a new Fees and Charges Schedule is proposed for 2025/26.

9.2.6. A review of savings proposals and their achievability by the Executive, ELT, CLT, DMT and Finance to assess the robustness and deliverability of proposals

9.2.7. A joint meeting of the Scrutiny Committees was held for Members to engaged in the review and challenge of budget proposals during the consultation period.

9.2.8. Members, Executive Directors (ELT) and Service Directors (CLT) have received a series of briefings regarding the Council's financial position and the challenge faced for the current year in reducing the call on the reserve and the future years budget gap.

9.2.9. Budget proposals have been subject to public consultation where appropriate and feedback has been factored into the finalisation of proposals.

9.2.10. Executive Directors have taken responsibility and accountability for the delivery of their budget savings proposals and have formally signed off their commitment to delivery, remaining within their agreed budgets for 2025/26. See Directors' Budget Assurance Statements **Annexes B (i)-(vi).**

9.2.11. The use of in-year budget monitoring and engagement with Directors through their DMT meetings as budget challenge sessions with the Head of Finance Business Partnering and Strategic Finance Business Partners to understand and address the underlying drivers of cost and the ongoing vs one off nature of pressures being experienced in year.

9.2.12. Monthly financial recovery boards with Children's and Adults, chaired by the Section 151 Officer to understand the demand and pressures in their services, challenging assumptions and pushing for mitigations for forecast outturns.

9.2.13. Detailed modelling and sensitivity analysis on the assessment of service demand for the demand led statutory service areas to assess the adequacy of contingencies and reserves.

9.3. A Risk Provision of £3.000m and a total Corporate Contingency Budget of £12.000m is included within the 2025/26 Budget.

10. Robustness of Capital estimates 2025-2030

10.1. The proposed Capital Investment Strategy, Capital Programme together with the Treasury Management Strategy, Minimum Revenue Provision Strategy and Non-Treasury Investment Strategy are set out in **Appendices O to T** of the main **Budget Report**. Decisions in relation to capital investment, financing and associated borrowing have a direct impact upon the revenue position of the Council over the long term.

10.2. Members should be aware of the financial failure of a number of local authorities in recent years that has been associated with high risk practices of borrowing to invest for financial return. In the wake of the financial failure of local authorities such as Croydon, Thurrock, Slough and Woking, the Government issued new statutory guidance[2] in 2024 that comes into effect on 1 April 2025. The guidance aims to reduce excessive risk taking whilst supporting robust decision making to achieve national and local government priorities. The statutory guidance complements revisions to the CIPFA Prudential Code for Capital Finance in 2021[3] (the Code) which required that local authorities must not borrow to invest primarily for financial return. These changes follow extensive consultation with the local government sector over several years.

10.3. The changes affect the ability of Local Authorities to borrow for financial return through shareholding investments in companies, the acquisition of property and granting of loans to third parties. The regulations determine the rules for charging to the revenue account the annual repayment of debt (MRP) in relation to such arrangements and affects both existing and future arrangements of a commercial nature.

10.4. It should be noted that local authorities are prevented in future from borrowing primarily for financial return and, where they hold investments of this nature that have been financed by borrowing, they should make appropriate disclosures in relation to non-compliance with the Code within the annual Capital Strategy and produce a Non-Treasury Investment Strategy. Authorities should make an assessment of and report on the Council's financial risk exposure and develop plans for disinvestment in these high risk categories of investment over time given that they do not relate to the core functions of a local authority. Whilst the Code does not mandate the disposal of such investments, Local Authorities are recommended to rebalance their portfolios where such investments remain. Where Local Authorities have an expected need to borrow, they should consider divestment of commercial investments to generate Capital Receipts in preference to taking new Borrowing.

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[2] Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2024.

[3] CIPFA Prudential Code for Capital Finance 2021 edition

10.5. Somerset Council has inherited several such investments from its predecessor Local Authorities. Further information in relation to the strategy for these assets is set out in **Appendices O to T**.

10.6. The Capital programme has been reviewed and reprioritised to minimise and focus expenditure funded from Council resources within affordable limits, reducing the current 2024/25 programme from £268.721m to £111.751m (excluding fully funded Transformation costs), and planned Borrowing from £60.296m to £11.219m (before the effects of EFS).

10.7. The proposed Revenue Budget includes £60.575m for the revenue cost of financing borrowing for capital expenditure, including both interest and MRP repayment of the debt. This represents 9.73% of the Net Revenue Stream as reflected in the Prudential Indicators within the Treasury Management Strategy. This is approximately the maximum 10% benchmark recommended by CIPFA and is expected to remain around 10% in the medium term.

10.8. The Council should seek to prioritise and constrain future new capital investment funded by Borrowing in order to limit future pressure upon the Revenue Budget; instead, securing external funding and utilising Capital Receipts in preference to further Borrowing over the period of the MTFP.

10.9. While much of the existing Borrowing is at a fixed rate, there is still some exposure to interest rate risks, particularly when Borrowing is needed for new schemes or to refinance existing debt. This is taken into consideration when setting the Budget alongside forecasts of future interest rates.

10.10. The approved programme's revenue implications are incorporated in the MTFP and Risk Assessment. The capital programme is financed mainly from the following sources; Section 106 (S106) Community Infrastructure Levy (CIL), Grants, Capital Receipts, Borrowing and HRA revenue.

10.11. The Council's policy is to include the Revenue cost of its Approved Capital Programme over the MTFS period. The risks include:

- 10.11.1. **A shortfall in Capital funding** (e.g. such as new capital grants and contributions) that would result in an increased need to borrow or delay schemes;
- 10.11.2. **Risk of the economy faltering** resulting in housing market falls and reduction in land and asset values resulting in lower income and capital receipts than planned which may affect the viability of elements of the capital programme;
- 10.11.3. **Costs increasing beyond forecasts**. The proposed programme takes into consideration the current high levels of inflation, but the risk of further unanticipated increases remains;
- 10.11.4. **The ability** of Somerset **to fully deliver the programme** within the agreed timescales and resultant unplanned cost of delays;
- 10.11.5. The **consequential revenue impact** of any delay in capital investment.

10.12. Somerset's Capital Programme is set out in **Appendix Q** with proposed new schemes at **Appendix P**. All the various major capital projects require robust business cases to be completed including a full assessment of affordability and management of risk at each major stage before they are progressed to implementation. All large schemes are subject to a separate decision report following the procurement exercise to ensure its affordable.

11. Governance

11.1. The Budget has been prepared with the full involvement of the Executive Leadership Team led by the Chief Executive and has engaged fully the Leader, Deputy Leader & Executive Member for Resources, Procurement and Performance together with the wider Executive over many months and iterations of budget proposals.

11.2. The Council's Constitution requires that all functions of the Council, except those decisions that are specified as member decisions in the Terms of Reference of the Full Council, a committee or the Executive, or which by law have to be made by Members, are delegated to officers (Scheme of Delegation Part I2).

11.3. Within the Constitution are the Financial Regulations (Part I7) and Contract Procedure Rules (Part I8). Both require Executive Directors to ensure their staff comply with these regulations and procedures. Any decisions made shall accord with the Budget and Policy Framework (Scheme of delegation).

11.4. Every contract made by the Council must comply with the Contract Procedure Rules and Financial Procedure Rules set out at Part I 1.56 The Council (for non-executive functions) and the Executive (for executive functions) may contract out functions within the law, but the Council retains ultimate responsibility for those functions

11.5. Decisions which incur expenditure may only be made if there is adequate budgetary provision available (scheme of delegation). No power is delegated to any Chief Officer to spend above the Approved Budget for their Service Area unless or until the Executive has approved in advance the spending.

11.6. Budget Managers are responsible for:

- 7.1.1. managing their expenditure within their agreed budgets
- 7.1.2. understanding the financial implications of their business decisions
- 7.1.3. Delivering their savings to time, value and profile as agreed
- 7.1.4. Ensuring that there is accurate financial forecasting
- 7.1.5. taking action to remain within their agreed budgets

- with demand management strategies and
- mitigating actions implemented

11.7. Established budget monitoring (weekly reports to Budget Managers and monthly meetings), forecasting and reporting arrangements to Members will continue throughout 2025/26 and essential spending controls including establishment control and contract compliance will remain indefinitely.

11.8. Monthly tracking of savings delivery will continue to be reported to ELT and in Executive reports to ensure savings delivery and overall cost control remain on track. For any savings where delivery is now deemed unachievable indefinitely, an alternative/substitute savings proposal will be requested for consideration.

12. Adequacy of Reserves

12.1. Determining the appropriate levels of balances is a professional judgement based on local circumstances including the overall budget size, risks, robustness of budgets, major initiatives being undertaken, Budget assumptions, other Earmarked Reserves and provisions, and the Council's track record in budget management. These balances are the Council's "safety net" for unforeseen or other circumstances and must last the lifetime of the Council, therefore requiring planned contributions from future years' revenue budgets to maintain them.

12.2. The minimum level of balances cannot be judged merely against the current risks facing the Council as these can and will change over time. Reserves must remain adequate over the medium to long term.

12.3. It should be noted that the consequences of not keeping a minimum prudent level of reserves and balances can have extremely serious impacts on a local authority and can also result in the requirement for the Section 151 Officer to issue a Section 114 Notice. The potential implications of a Section 114 Notice are set out in Section 13.

12.4. Contingencies and provisions within the annual Budget will be used in the first instance to meet the cost of risks. The Corporate Contingency budget is increasing by £6.000m to a total of £12.000m ongoing from 2025/26. In addition to this a Risk Provision budget of £3.000m ongoing has been added from 2025/26. The Council's unrestricted usable Earmarked Revenue Reserves act as a second line of defence, with the General Fund Balance only being used as last resort. Any requirement to draw down from Reserves or the General Fund Balance to meet non-budgeted expenditure or loss of income must be replaced by budgeted contributions to restore reserves in the base budget across the MTFS period. This will have the effect of adding further financial pressure when balancing those annual budgets.

12.5. Should in-year pressures arise at a sum in excess of Contingency and

Risk Provisions, necessitating an unplanned drawdown on reserves and balances, the Business Risk Reserve would be utilised before calling on the General Fund Balance.

12.6. Other Earmarked Reserves are generally held for specific purposes and while most are theoretically available, they should not normally be considered available for the purpose of Financial Resilience. Some reserves are held on behalf of third parties, schools or are subject contractual and/or specific conditions upon their use, for example Insurance Reserves. These 'restricted' reserves cannot be relied upon to support the General Fund position.

12.7. The requirement to hold Earmarked Reserves should be regularly reviewed and challenged, with the Section 151 Officer ultimately controlling the prudent use of Reserves. Given the fragile financial position of the Council, the Section 151 Officer will ultimately exercise control over the prudent use of all Reserves.

Previous use of Reserves

12.8. In 2024/25 the Council relied on the drawdown of £36.800m of Earmarked Reserves to balance the Budget in 2024/25 with reliance placed on further use of Reserves in the event that EFS was not approved by MHCLG. The Council approved the Budget for 2024/25 on 20 February 2024. Total available Revenue Reserves were projected at £76.6m by the end of 2024/25. The previous Section 151 Officer assessed that if EFS was not approved by MHCLG in its letter of 27 February 2024, a further drawdown of £36.884m from Reserves to balance the 2024/25 Budget was possible to balance the Budget, leaving remaining total reserves of £39.7m which were assessed as adequate for 2024/25, whilst concern for the ability to balance the 20252/6 Budget position and the financial viability of the Council over the period of the MTFP was expressed.

12.9. During 2024/25 the Reserves position has been assessed by the Interim Section 151 Officer as part of a detailed review of the Council's Balance Sheet. This identified the opportunity to repurpose some specified Reserves to the General Fund Balance and the opportunity to apply some Earmarked Revenue Reserves to eligible expenditure in order to support in year expenditure, to reduce the in-year overspend. The Earmarked Reserves have been reviewed as at Quarter 3 2024/25. This has prioritised the Earmarked Reserves into Corporate Reserves such as the Business Risk Reserve and Transformation Reserve.

Adequacy of Reserves 2025/26 to 2029/30

12.10. The Council's usable unrestricted Earmarked Revenue Reserves (i.e. excluding restricted Reserves such as School Balances, monies held on behalf of third parties or subject to funding conditions) are summarised in **Table 4** below for the period of the MTFP to 2025/26 to 2029/30 showing the theoretical impact of the forecast deficit which will exhaust reserves during 2026/27 unless additional savings or income are achieved. Reserves are not considered to be sufficient to place reliance upon them to balance the 2025/26 Budget. The budget gap cannot be closed without reliance upon EFS support in the form of a Capitalisation Direction from MHCLG, for which a 'minded to' decision letter was received on 20 February 2025.

Table 4: Unrestricted Earmarked Reserves & General Fund Balance

	2024/25 Forecast £m	2025/26 Estimate £m	2026/27 Estimate £m	2027/28 Estimate £m	2028/29 Estimate £m	2029/30 Estimate £m
Opening Balance of Unrestricted Earmarked Reserves & GF	**117.578**	**108.123**	**105.905**	**4.221**	**(127.224)**	**(280.750)**
Planned contributions/(drawdowns)	(9.455)	(2.218)	(0.300)	4.701	5.000	5.000
Closing Balance of Unrestricted Earmarked Reserves & GF	**108.123**	**105.905**	**105.605**	**8.923**	**(122.224)**	**(275.750)**
Budget Deficit (Cumulative)	(36.884)	(43.000)	(101.384)	(136.147)	(158.525)	(190.041)
Exceptional Financial Support (EFS) – Capitalisation Direction (CD)	36.884	43.000	-	-	-	-
Closing Balance of Unrestricted Earmarked Reserves & GF after Budget Deficit	**108.123**	**105.905**	**4.221**	**(127.224)**	**(280.750)**	**(465.791)**

Table 4a: All Earmarked Reserves and the General Fund Balance (excluding other balances)

	2024/25 £m	2025/26 £m	2026/27 £m	2027/28 £m	2028/29 £m	2029/30 £m
Opening Balance - Earmarked Reserves (excluding other EMRs)	**92.304**	**67.747**	**64.750**	**64.607**	**69.430**	**74.681**
Less Restricted Reserves (excluding other EMRs)	**(28.949)**	**(19.624)**	**(18.845)**	**(19.003)**	**(19.125)**	**(19.377)**
Total Unrestricted EMRs	**63.354**	**48.123**	**45.905**	**45.604**	**50.305**	**55.304**
Opening Balance - General Fund	**54.224**	**60.000**	**60.000**	**60.000**	**60.000**	**60.000**
Total Opening Reserves Balance	**117.578**	**108.123**	**105.905**	**105.604**	**110.305**	**115.304**
Contributions/(drawdowns) - EMRs	(15.231)	(2.218)	(0.300)	4.700	5.000	5.000
Contributions/(drawdowns) - General Fund	5.776	-	-	-	-	-
Total Planned contributions/(drawdowns)	**(9.455)**	**(2.218)**	**(0.300)**	**4.700**	**5.000**	**5.000**
Closing Balance - Earmarked Reserves (excluding other EMRs)	**67.747**	**64.750**	**64.607**	**69.430**	**74.681**	**79.932**
Less Restricted Reserves (excluding other EMRs)	**(19.624)**	**(18.845)**	**(19.003)**	**(19.125)**	**(19.377)**	**(19.628)**
Total Unrestricted EMRs	**48.123**	**45.905**	**45.604**	**50.305**	**55.304**	**60.304**
Closing Balance - General Fund	**60.000**	**60.000**	**60.000**	**60.000**	**60.000**	**60.000**
Total Closing Balance Reserves	**108.123**	**105.905**	**105.604**	**110.305**	**115.304**	**120.304**

12.11. **Table 4a** Summarises all Earmarked Reserves and the General Fund Balance on the basis that there is no draw upon reserves to fund the forecast deficit set out in **Table 4**. It should be noted that both Table 4 and **Table 4a** exclude reserves held on behalf of schools and third parties and other restricted reserves.

12.12. Subject to reliance on EFS Capitalisation Direction set out in the assumptions at paragraph 7.1 above, the General Fund Balance at 31 March 2026 is forecast to be £60.000m. This is above the minimum value advised by the Section 151 Officer. The forecast balance on unrestricted Earmarked Revenue Reserves is £45.905m which these will need to be replenished in future years to maintain the Business Risk Reserve and the General Fund Balance to the equivalent of 10% of the Net Revenue Budget as recommended by the Section 151 Officer.

12.13. Total Reserves are therefore adequate to cover the risks set out in Section 13 of this Section 25 report in 2025/26. However, the forecast deficit of £101.384m in 2026/27, rising to £190.041m 2029/30 demonstrates that the Council is not financially sustainable in the medium term based upon its current operating model, known pressures and proposed savings and available funding form government. Based upon current plans for spending, transformation and savings, the forecast deficit in 2026/27 of £101.384m will result in the Council's Reserves being exhausted during 2026/27 unless further transformation and savings plans are developed for implementation by the start of 2026/27.

12.14. It is not prudent to draw on Reserves each year in order to meet ongoing Revenue expenditure from operations. It is recommended that there should be no unplanned draw on Reserves in 2025/26 nor to balance the Revenue Budget in future years. Any unplanned draw down on Business Risk Reserves that arises due to unforeseen events, should be planned to be replaced through regular updates to the MTFP.

12.15. It is unlikely that the Council will be capable of developing and implementing sufficient additional transformation and savings plans to deliver the full £101.284m deficit for 2026/27 and it is highly probable that it will require further Government support in the form of EFS in 2026/27 and possibly beyond in order to support the transition to new and more cost effective ways of working.

12.16. However, the Council must take prompt action in 2025 to develop and implement further service transformation and savings programmes at sufficient scale and pace to reduce its operating costs in line with its forecast sustainable income streams. These should aim to close/mitigate the forecast deficit in 2026/27 and achieve financial balance by 2027/28. Over the medium term, the Council must rebuild maintain its reserves above the minimum recommended balance It will subsequently need to take additional measures to rebuild its reserves over the period of the MTFP in order strengthen its Financial Resilience once Financial Stability is achieved.

12.17. Reserves have been reviewed and challenged and ultimately controlled by the Section 151 Officer to ensure the most appropriate priority in their use given the seriousness of the Council's financial position.

12.18. The General Fund Balance has been increased to £60.000m having been assessed for adequacy, considering the uncertain financial and economic environment in which the Council continues to operate. The minimum General Fund Balance is recommended to be set at no less than 5% of the Net Revenue income stream on 1 April 2025 which is £33.254m (excluding the use of EFS to meet the Net Revenue Budget).

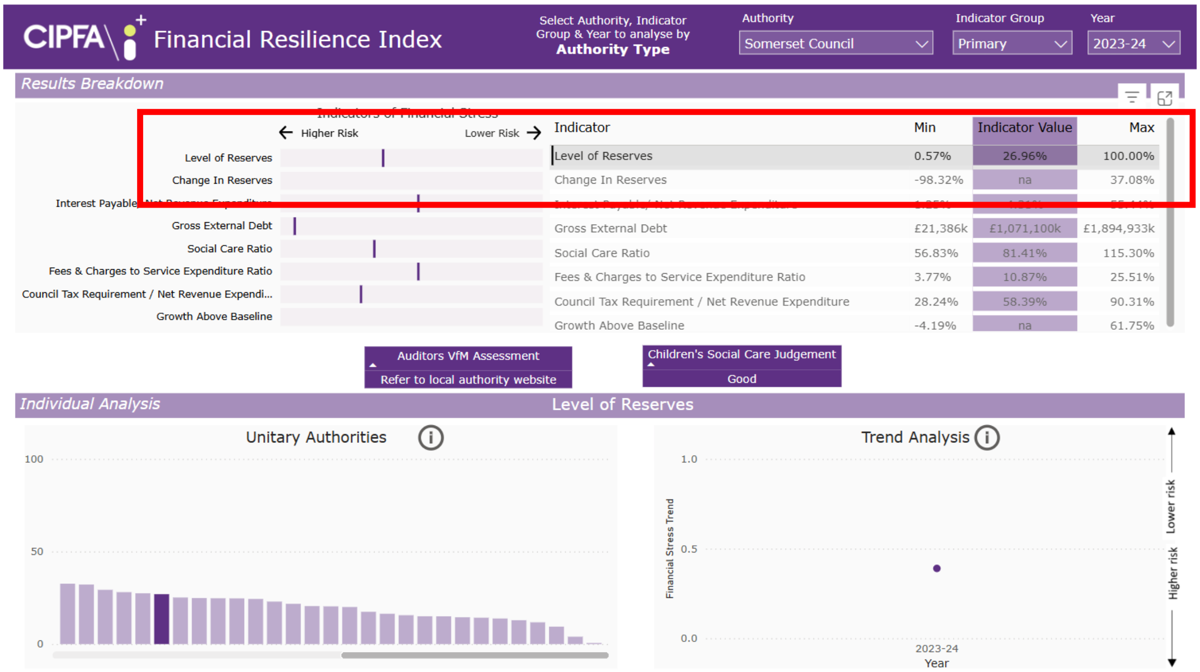
12.19. Within usable unrestricted Earmarked Reserves, a Business Risk Reserve of £40.732m has been established for the purpose of meeting unanticipated financial pressures subject to the recommendation of the Section 151 Officer to the Executive.

12.20. The MTFS includes a plan to rebuild and maintain the General Fund Balance at 10% of the Net Revenue Budget and the Business Risk Reserve 10% as the Council stabilises its annual financial position over the medium term to 2029/30. Any underspends at year end will be prioritised to the General Fund Balance and the Business Risk Reserve before any other Earmarked Reserves.

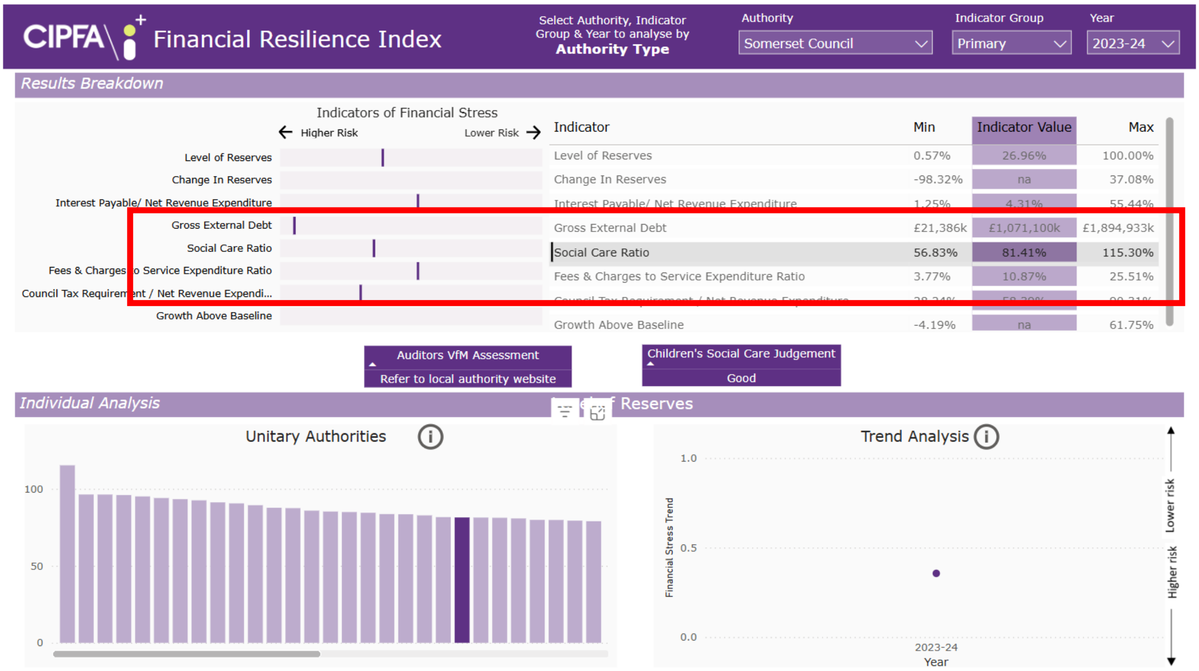
Comparative Data Regarding Financial Resilience

12.21. CIPFA publishes a Financial Resilience Index of all Local Authorities each year. The below images show the latest available information of how Somerset compares to other Unitary Councils as at 31 March 2024.

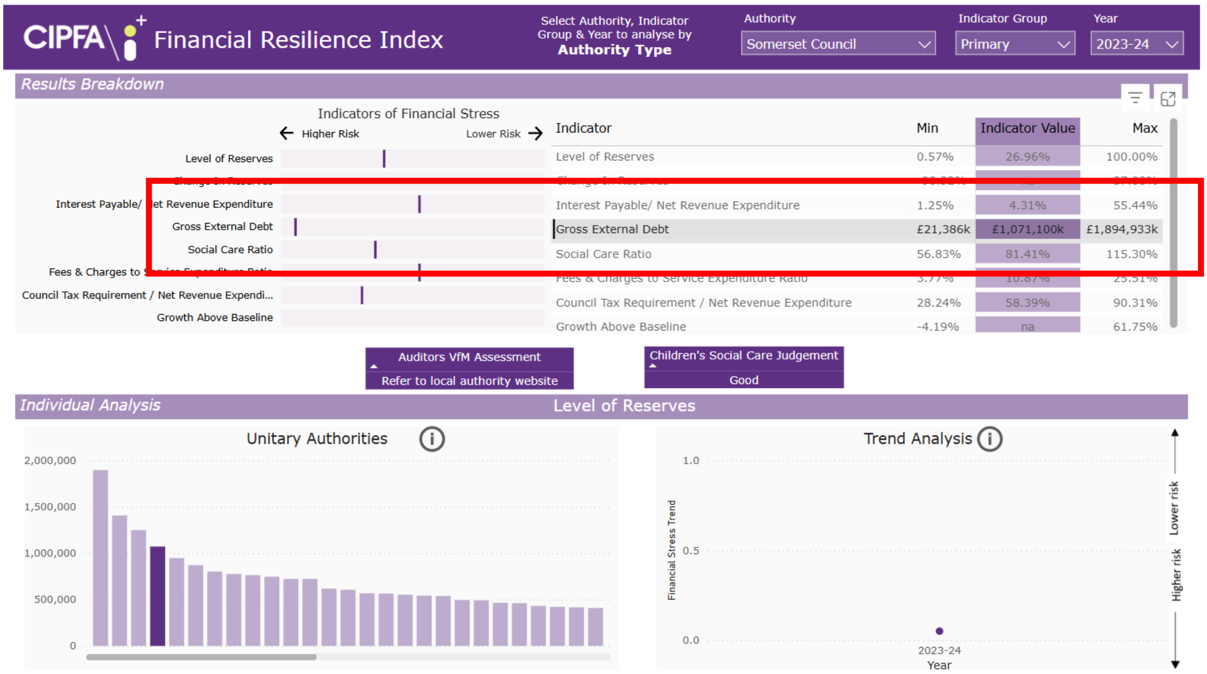
12.22. **Chart 1: CIPFA Financial Resilience Index – Level of Reserves 2023/24**



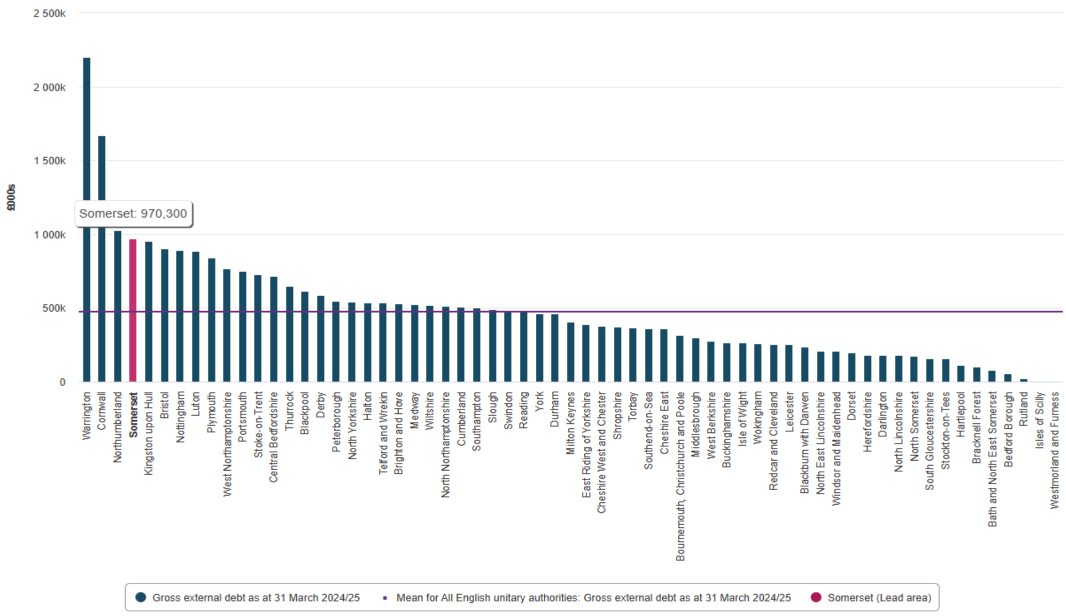
12.23. **Chart 2: CIPFA Financial Resilience Index – Social Care Ratio 2023/24**



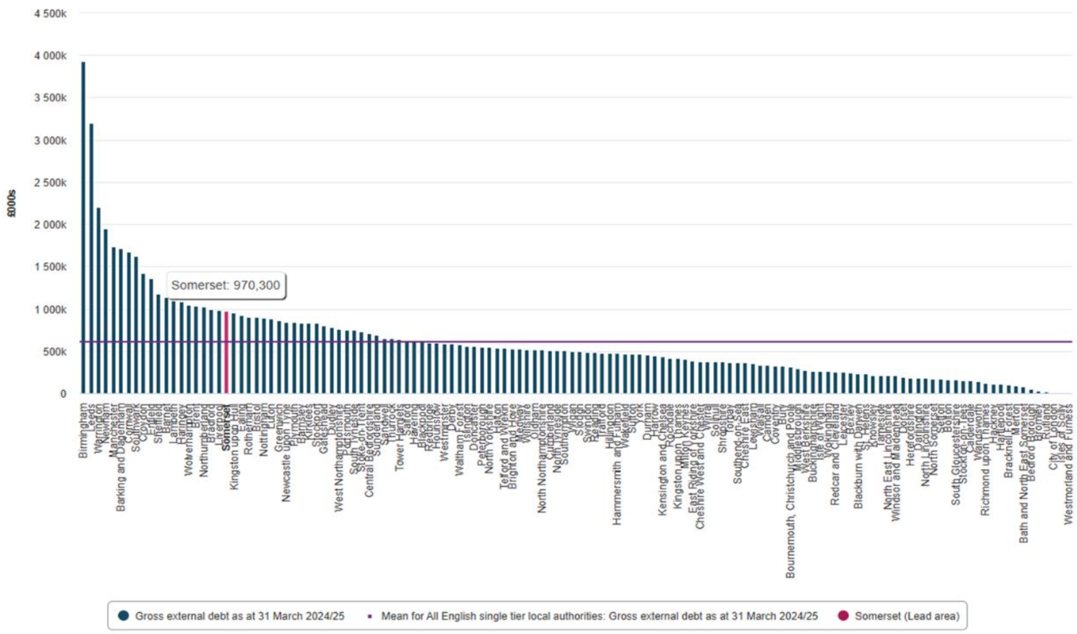
12.24. **Chart 3: CIPFA Financial Resilience Index – Gross External Debt 2023/24**



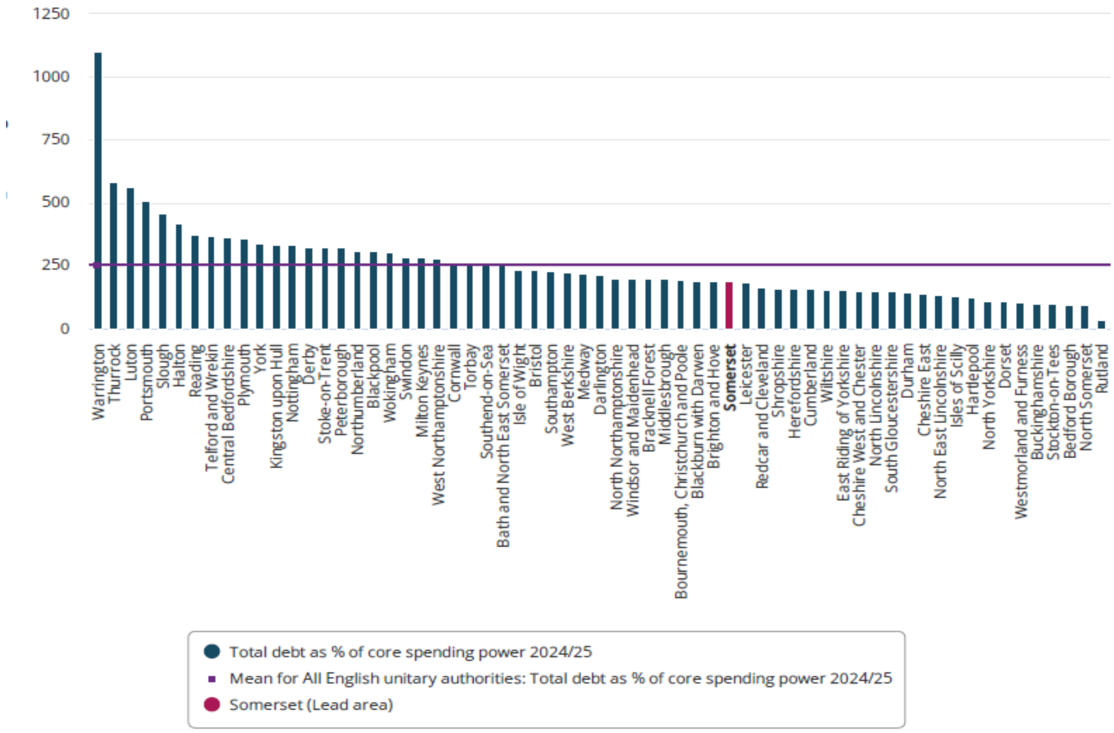
12.25. **Chart 4: Gross External Debt – All Unitary Authorities forecast to 31 March 2025**



12.26. **Chart 5: Gross External Debt – All Single Tier Authorities forecast to 31 March 2025**



12.27. **Chart 6: Total Debt as a Percentage of Core Spending Power – All Unitary Authorities forecast to 31 March 2025**



12.28. The CIPFA Financial Resilience index illustrates in the dashboards above that Somerset has the key metrics that should be monitored closely from the 2023/24 data:

- Reserves indicator is towards the High Risk range being 24th from the bottom when compared with other Unitary Authorities as in **Chart 1**
- Social Care ratio is also towards the High Risk range 22nd highest of 60 Unitary Authorities as in **Chart 2**
- Gross External Debt is in the High Risk range 4th highest of 60 Unitary Authorities as in **Chart 3**

12.29. According to the CIPFA Resilience index Reserves is at 26.96% of Net Revenue Budget. it is imperative to maintain and rebuild reserve as this indicator is from 2023/24 and does not take into account the Councils budgetary contribution from Reserves to Balance the 2024/25 Budget as in **Chart 1**

12.30. The Social Care ratio is at 81.41% of the Net Revenue Budget. Expenditure in these areas needs to be managed and decreased through transformation programmes and demand management strategies as in **Chart 2**

12.31. The Gross External Debt is at £1,071.100m, this is the total value. It takes in to account General Fund and Housing Revenue Account (HRA). When comparing with other Unitary Authorities it is not clear which ones also have an HRA with the HRA debt included. The Council should, however continue with minimising the any increases to the levels of borrowing. This includes using other forms of funding for Capital Programmes and Capitalisation Direction as in **Chart 3** and LG Inform **Charts 4 and 5**.

12.32. The Gross External Debt as in **Chart 6** from LG Inform compares Debt as a Percentage of Core Spending Power, this enables a comparison of the proportionality of debt to annual expenditure budgets. As Somerset is one of the biggest Unitary Authorities in the country it would naturally have a higher amount of debt, however it is clear form **Chart 6** that the proportion is in the lower half of the chart.

12.33. It will be vital to keep tracking the CIPFA Financial Resilience index in each financial year to see how the Council's Financial Resilience position compares with other Unitary Authorities.

13. Risks

13.1. The Chief Finance Officer has considered the strategic and operational risks and the level and purpose of the balances and reserves currently held by the Council. The level of balances and reserves held is a balance between the risks facing the Council and the opportunity costs of holding those balances.

13.2. A summary of the significant budget risks is set out below and further detail is set out in the main budget report:

- **Uncertainty of Government funding** beyond 2025/26 until after the Government issues the Spending Review in Spring 2025 and an assessment of changes to the methodology for distributing government funding to local authorities following the Fair Funding Review.

- **Economic Risks** - Increasing costs due to inflation and demographic pressures resulting in significant savings requirements in future years.

- **Market Driven Costs** – general supplies service cost increases due to the knock-on effect of increases in national insurance employers' contributions, which suppliers will seek to pass on to the Council

- **Contract failure** - Due to risk of suppliers and contractors defaulting as a result of financial difficulties, especially given the pressures with the rise in National Insurance.

- **Budget Implementation** – due to potential delay or under achievement of planned savings.

- **The cumulative impact of savings plans** – the increasing challenges of achieving the on-going significant budget reductions of organisational transformation to maintain levels of service provision

- **Capacity and Capability** – to reduction in capacity due to planned staff reductions and potential lack of skills and expertise to develop and deliver transformation and change.

- **Adult Social Care** – Increasing demographic pressures upon demand and complexity of need in Adult Social Care combined with higher care fees being claimed by providers to offset their rising costs in excess of inflation. The Council is also experiencing an increasing number of Self Funding social care clients becoming eligible for local authority funded support. These are difficult to predict and may result in increased financial pressures.

- **Homelessness** – In line with the national issue affecting many local authorities across the country, the Council is experiencing an increase in the number and complexity of homelessness cases and a need for temporary accommodation. This is coupled with an increase in the cost of provision, especially in relation to bed and breakfast accommodation. The Local Housing Allowance (LHA) within Housing Benefit Subsidy is proving to be insufficient to meet these costs resulting cost pressure to the General Fund budget.

- **Children's Social Care** – Increasing levels of demand and increased complexity of need may drive further cost increases, particularly in relation to external residential care upon which there is reliance due to insufficient supply of suitable foster care placements.

- **Capital programme** - Managing the programme to meet deadlines and within agreed budget allocations.

- **Interest rates** – The inherent difficultly of predicting interest rates could lead to significant budget pressures or savings in capital financing costs. Whilst much of the Council's debt is fixed rate, the requirement to replace maturing loans exposes the Council to interest rate volatility.

- **Interest rates** – risks of adverse movements on rates, both in terms of borrowing and investments.

- **Income uncertainties** – Uncertainties on collection including Council Tax, Business Rates, demand for fee paying services and Parking Enforcement Income.

- **Tax changes** – Employer's National Insurance Contributions impact on the market and landfill tax.

- **Pooled Fund Investments – International Financial Reporting Standard 9 (IFRS9) Removal of Statutory Override –** The change to IFRS9 in 2018 would have potentially resulted in significant financial issues for local authorities, so a Statutory Override was introduced to allow the changes in Fair Values to continue to be held on Balance Sheet. This override was initially granted for a 5-year period (ending on 31/03/23) and subsequently extended it for a further 2 years (ending on 31/03/25). MHCLG have recently consulted Local Authorities as part of the Local Government Finance Settlement in relation to the planned end to the Statutory Override. Following the consultation, MHCLG remains of the view that the Override should not be extended beyond 1 April 2025. Any new investments must comply fully with the IFRS requirements as set out in the new Code. MHCLG has stated that in respect of historical investments and reflecting on the financial position of the local authority sector, that they are considering the potential for additional transitional support and they will continue to work with the sector.

- **Statutory override Dedicated Schools Grant (DSG)** – Continuing significant increases in the number of Children with an EHCP is driving escalating costs in the High Needs Block within DSG as detailed in the report. The cumulative DSG deficit is forecast to be approximately £99.125 by March 2026 when the statutory override ringfencing this deficit from general fund reserves is due to expire. Without a Government led solution to aligning service demand, costs and funding, the position is financially unsustainable. Whilst the Council is developing and implementing revised deficit management plans, these are unlikely to fully resolve the scale of the financial pressures. A removal of the statutory override before a solution is achieved which also addresses funding of deficits, will result in the exhaustion of the Council's revenue reserves, **resulting in the Section 151 Officer being required to issue a Section 114 Notice**.

13.3. The budget assumptions and potential changing circumstances require forecasts for future years to be constantly reviewed. More data and information enable more precise demand and cost modelling to be produced for the forthcoming financial year and over the medium term, typically during the autumn of each financial year.

13.4. The likelihood of all budget risks occurring in any one year is low to medium and the Council will hold a Corporate Contingency budget of £12.000m and a new Risk Provision budget of £3.000m in the 2025/26 Budget to help mitigate in-year budget risks. However, the uncertainty relating to the risks identified is an ever-increasing challenge to set a robust Budget and medium to long term financial strategy.

14. Implications of Issuing a Section 114 Notice

14.1. If the Council cannot set a legally balanced Budget, then there is a requirement for a Section 114 Notice being issued under the provisions of the Local Government Act 1988 Section 114 (3) which states that:

"The chief finance officer of a relevant authority shall make a report under this section if it appears to them that the expenditure of the authority incurred (including expenditure it proposes to incur) in a financial year is likely to exceed the resources (including sums borrowed) available to it to meet that expenditure."

14.2. Councillors have 21 days from the issue of a notice to discuss the implications at a Full Council meeting. The period between the date of the Section 114 notice and the Council Meeting is called the Prohibition Period and starts immediately upon the issue of a Section 114 Notice. During this period, the Council must undertake the following:

a) A Full Council meeting must be convened within 21 days from date of this report to discuss and decide if it agrees or disagrees with my views and confirms what actions, if any, it proposes to take.

b) Financial Controls during the Prohibition Period will be exercised by a Section 151 Spend Control Board, chaired by the Section 151 Officer. Specifically, this will mean:

   i) The spend controls instigated in November 2023 will be extended and/or enhanced. In practice this is likely to mean that:

      - no new expenditure is permitted, with the exception of that funding statutory services, including safeguarding vulnerable people, at minimum level
      - existing commitments and contracts will continue to be honoured.
      - Council officers must therefore carry out their duties in line with contractual obligations and to acceptable standards, while being aware of the financial situation.
      - any spending that is not essential or which can be postponed should not take place and essential spend will be monitored.
      - The only allowable expenditure permitted under an emergency protocol would include the following categories:
         - existing staff payroll and pension costs
         - expenditure on goods and services which have already been received
         - expenditure required to deliver the council's provision of statutory responsibilities at a minimum possible level
         - urgent expenditure required to safeguard vulnerable citizens
         - expenditure required through existing legal agreements and
         - contracts and expenditure funded through ring-fenced grants
         - expenditure necessary to achieve value for money and / or mitigate additional in year costs

   ii) The Council is prevented, without explicit written agreement of the Section 151 Officer, from entering into any new agreement or commitment for expenditure until Full Council has met to consider the s.114(3) report. It may be deemed necessary to extend these controls after Full Council has met as part of the proposed recovery plan.

iii) All new expenditure must stop with immediate effect unless there is written confirmation from the Section 151 Officer. To be clear, any non-compliance with this direction would be considered a disciplinary matter by the Council. There are no exemptions, exclusions, or financial delegations of authority to other statutory officers, LMT, Officers or Members.

c) The controls outlined in (i), (ii) and (iii) above will apply to the following, where individual business cases will need to be reviewed by the Section 151 Spend Control Board for:

i) all Council services regardless of funding, including those where the Council has a legal duty, and

ii) all services being delivered through companies controlled by the Council, or where the Council supplies funding to companies that are jointly or partly owned by the Council.

14.3. If Council agrees with the views detailed in the Section 114 report, it will take immediate steps to achieve a robust and balanced Budget for 2025/26 as legally required to include:

a) the prompt agreement of robust savings proposals totaling £43.000m in 2025/26.

b) Delegation to the Section 151 Officer to further develop and implement the financial recovery plan which will bring the General Fund back to a balanced position, including reporting requirements.

c) Continuation of the Section 151 Spend Control Board implemented during the Prohibition Period.

d) Review of existing commitments which includes assessment of the Capital Programme (including delaying existing projects and expediting assets for sale).

e) The consideration of service cessation in 2025/26 of any service that the Council does not have a legal duty to fulfil.

14.4. If controls are not adhered to, or do not achieve the required outcomes, a further Section 114 report would need to be issued.

14.5. Intervention ranges from the requirement for the local authority to work with an MHCLG appointed independent assurance board, through to appointment of independent Commissioners who oversee the running of the Council through its financial recovery phase. Commissioners would come into the Council and take over the decision making of the Council.

15. Resilience over the Medium Term

15.1. Despite the increase in core funding for the Council in the Local Government Finance Settlement for 2025/26 and savings of £47.933m being agreed as part of the 2025/26 budget (total savings for 2025/26 £57.917m) the Council has been unable to balance its Budget for 2025/26. The Service Directorates had additional Growth requirements of £58.115m, this was £22.188m more than the provision in the Medium Term Financial Plan (MTFP). Consequently, the Council has been unable to balance its Budget without Exceptional Financial Support in the form of both additional Council Tax increase of 2.5% and £43.000m of Capitalisation Direction (CD).

15.2. The Council on 20 February 2025 has received the 'minded to' decision letter from Ministry of Housing, Communities and Local Government (MHCLG) confirming the £43.000m Capitalisation Direction has been allocated the Council will be able to set a robust legal and Balanced Budget for 2025/26.

15.3. It is incredibly difficult to predict funding for the future Medium Term Financial Plan (MTFP). Whilst Government have committed to Local Government Funding reforms and multi-year settlements, it is not clear what they may be at this stage. Prudent income assumptions have been included in the MTFP. The Budget gap over the medium term to 2029/30 is £190.041m. The impact of the one off £43.000m CD in 2025/26 means that the Budget gap for 2026/27 is now £101.384m. It is clear that the Council does not have sufficient Reserves to balance the Budget in 2026/27 or the MTFP. The Council will need to deliver significant savings through the 2 core areas Budget Workstreams and Transformation Cross Council. There is a very high probability that the Council will require EFS in 2026/27 and beyond. **Without significant additional savings, additional funding and Council Tax if the Council cannot balance the Budget in future years the Council will require further EFS otherwise a Section 114 Notice would need to be issued**.

16. Statutory Assurance from the Interim Chief Finance Officer (Section 151 Officer)

16.1. Taking account of all the above considerations, I am of the view that the proposed Budget 2025/26 including the £43.000m Capitalisation Direction is lawful, robust, balanced and can be managed within the Council's existing resources for 2025/26. The Council received the 'minded to' decision letter from MHCLG confirming the Capitalisation Direction and value at £43.000m on 20 February 2025.

16.2. Council should note that no assurance can be given regarding the Council's financial position for 2026/27 and beyond for the medium term until the

Government has set out future of Local Government funding. Until this funding is confirmed I cannot confirm that any Medium Term Financial Strategy is robust and achievable.

16.3. The seriousness of the Council's financial position cannot be under-estimated as laid out in the main report and summarised above. The Council should continue to take effective action as if Commissioners were taking action to ensure that it moves to a Financially Sustainable and Resilient position as soon as possible.

16.4. It is essential that financial discipline is maintained and strengthened to ensure that Service Directorates contain expenditure within or below their approved budget for the remainder of 2024/25 and indefinitely in order to reduce the call upon Exceptional Financial Support – Capitalisation Direction and Reserves which are one off funding streams. These measures are merely bridging the funding gap, to allow time for the ELT to develop further plans to achieve Financial Sustainability.

16.5. Member input into challenge of financial performance is valuable and should continue and expand in order to ensure focus upon priorities in making difficult decisions to reduce expenditure going forward.

16.6. The Council must address these challenges which have also been set out in the 2 Statutory Recommendations issued by the External Auditor in January 2025 in relation to the Auditor's concerns about failure to meet the Best Value Duty in respect of Financial Sustainability.

16.7. The further development and delivery of the Council's finance and governance improvement plan is an important framework within which to manage, control and report the Council's progress.

16.8. There is a significant Budget gap for 2026/27 that will need to be addressed at pace with significant savings and transformation. The reserves are forecast to be exhausted during 2026/27 unless urgent management action is taken to develop further transformation and savings plans at pace during 2025/26 for Member approval and implementation in 2026/27. If this budget gap is not closed the Council will again be reliant on Exceptional Financial Support in the form of additional Council Tax above the referendum threshold and/or Capitalisation Direction.

16.9. In addition, the DSG Statutory override would need to be extended until the Government has a solution for these DGS deficit Reserves.

16.10. **Further significant additional savings, additional funding and Council Tax will be required so that Council can balance the Budget in future years. If the Council cannot balance the Budget, it will require further Exceptional Financial Support otherwise a Section 114 Notice would need to be issued. A Section 114 Notice would also need to be issued if the DSG override is not extended by Government.**